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FILED

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SECRETARY, BOARD OF
OIL, GAS & MINING

**BEFORE THE BOARD OF OIL, GAS & MINING
DEPARTMENT OF NATURAL RESOURCES
STATE OF UTAH**

NOTICE OF AGENCY ACTION FOR AN ORDER REQUIRING MARION ENERGY TO PLUG AND RECLAIM WELLS; OR FORFEIT SURETY BOND AND AUTHORIZE THE DIVISION TO PLUG AND RECLAIM WELLS LOCATED IN TOWNSHIPS 13 AND 14 SOUTH, RANGE 7 EAST, CARBON COUNTY, UTAH; AND AN ORDER REQUIRING MARION ENERGY TO IMMEDIATELY COMPLY WITH THE NOTICE OF VIOLATION FOR THE WELLS LOCATED IN TOWNSHIPS 12, 13, AND 14 SOUTH, RANGES 7 AND 10 EAST, CARBON COUNTY, UTAH.

**STIPULATED MOTION TO
REMOVE THE UTAH FUEL # 10 WELL
FROM PLUGGING ORDER AND TO
CONTINUE SUSPENSION WITH
RESPECT TO UTAH FUEL # 8 WELL,
AND PROPOSED ORDER**

Docket No. 2011-018

Cause No. 250-02

Marion Energy Inc. ("Marion") and the Division of Oil, Gas and Mining ("Division") through their respective counsel submit this Stipulated Motion to Remove the Utah Fuel # 10 Well from Plugging Order and to Continue Suspension with Respect to Utah Fuel # 8 Well, and Proposed Order.

The Board entered an Order on September 10, 2012 ("Plugging Order") forfeiting the bond for certain wells operated by Marion in the Clear Creek Field and authorizing the Division to plug them in accordance with the applicable statutes and rules. Since that time the Board has

issued a series of orders removing all but two of the subject wells from the Plugging Order, the Utah Fuel # 10 and the Utah Fuel # 8. This stipulation addresses these two remaining wells.

Utah Fuel # 10 Well.

At the Board's October 23, 2013 hearing, Marion presented evidence that the Utah Fuel # 10 well had been connected to the Clear Creek gas gathering and water disposal system and had been producing gas since October 11, 2013, except for a four day period for compressor repairs. Following the hearing, the Board issued an order that continued suspension of the Plugging Order with respect to this well until the December Board hearing to allow an additional period of time to confirm the well is capable of continued production.

On November 26, 2013, Marion submitted a letter report to the Division documenting that the Utah Fuel # 10 well has continued to flow, that the well pressure remains high (approximately 700 p.s.i.), and that there is no evidence that the well is playing out. A copy of the letter is attached as Exhibit 1. Based on this report and on Division field inspections, the Division and Marion have agreed that the well should be removed from the Plugging Order and returned to Marion control. A proposed Order that would effect this agreement between the Division and Marion is attached.

Utah Fuel # 8 Well.

At the Board's October 23, 2013 hearing, and in earlier filings with the Board, Marion presented evidence that the Utah Fuel # 8 well exhibits high well head pressure, that the well did not blow down when Marion opened the well to repair a leaking valve, and that based on this and other evidence Marion believes the well has good potential for long term production. Marion

also testified that it expected to have a rig on this well by the Board's December hearing so it could test and either repair and produce or plug the well. In its November 26th letter to the Division (Exhibit 1), Marion explained that it has been unable to put its rig onto the well because the rig has been occupied with operations to fracture stimulate two other wells (the Oman 2-20 and the Oman 10-29), which have taken longer than expected. Marion expects that these operations will be completed and that it will be able to move a rig onto the Utah Fuel # 8 well by early to mid-December.

Marion and the Division have therefore agreed that the Plugging Order should continue to be suspended for this well until the Board's January hearing, allowing time for Marion to move onto and evaluate the well, including time to establish a flow history for the well if the well does not blow down and is put on production.

Bonding.

The forfeited bond monies currently held by the Division for the wells under the Plugging Order, including the additional \$30,000 posted for the Oman 2-20 well pursuant to the Board's Second Supplemental Order, shall continue to be held by the Division for the plugging and reclamation of these wells until the status of the Utah Fuel # 8 well is resolved by either an order of the Board removing the Utah Fuel #8 well from the plugging order, or by plugging of the well. After the entry of such an order or completion of plugging, the Division shall propose an amount for bonding for the wells that are in production and for any amount required to complete restoration of the well sites that have been plugged. If the amount currently held by the Division is in excess of the amount determined to be necessary, the Division will return the excess sum to the party entitled thereto. Marion will be permitted 30 days to object to this amount or to the proposed distribution of any excess. If the Division and Marion cannot agree to the amount of

the bond or distribution of the excess, the matter shall be set for hearing before the Board. When the bond amount is determined by agreement of the parties or by order of the Board after hearing, Marion may post a surety bond or bonds in place of the monies currently held by the Division, and the Division will return the monies to the party entitled thereto.

Agreed to on the date executed below.

Utah Division of Oil, Gas and Mining



By Steve Alder
Assistant Utah Attorney General

Dated: 12/3/13

Marion Energy Inc.



By Mike Malmquist
Parsons, Behle & Latimer

Dated 12/3/13

ORDER

The Board of Oil, Gas and Mining having reviewed the attached **STIPULATED MOTION TO REMOVE THE UTAH FUEL # 10 WELL FROM PLUGGING ORDER AND TO CONTINUE SUSPENSION WITH RESPECT TO UTAH FUEL # 8 WELL** and finding good cause therefore does hereby Order that the Stipulation is approved as follows:

1. The Utah Fuel # 10 well is removed from operation of the September 2012 Plugging Order and returned to Marion's control.
2. Suspension of the Plugging Order for the Utah Fuel # 8 well is continued until the January Board hearing, at which time Marion shall appear and report to the Board on the status of the well.
3. The Division shall continue to hold the forfeited bond monies until the amount of a replacement bond is determined by agreement between Marion and the Division, or if they cannot agree, by order of the Board. Any excess monies, or any monies for which replacement bonds are posted, shall be returned to the party entitled thereto.

Dated this 4 day of December, 2013

**STATE OF UTAH
BOARD OF OIL, GAS AND MINING**

By:


Chairman

Exhibit 1



November 26, 2013
John Rogers, Associate Director
Utah Division of Oil, Gas and Mining
1594 West North Temple, Suite 1210
Salt Lake City, Utah 84116
johnrogers@utah.gov

Re: Utah Fuel # 10 Well, Utah Fuel # 8 Well.

Mr. Rogers:

By this letter, Marion Energy Inc. (Marion) provides an update on the Utah Fuel # 10 well and the Utah Fuel # 8 well in the Clear Creek Field.

Utah Fuel # 10

As a follow-up to the October Board hearing, Marion has been monitoring the gas flow from the Utah Fuel # 10 well. Our field manager, Dave Smith, has checked the meter on the Questar compressor on a daily basis, and I have also checked the Questar meter on many occasions during that time, including every day for the last 20 days. Given that the Utah Fuel # 10 well is still the only well connected to the Questar compressor, this meter provides an accurate measure of the gas flowing from the well (minus the gas used to run the compressor itself).

Based on these in-field observations, the well continues to exhibit strong flow, up to 480 mcf/day, although the flow is being limited by problems with the Questar compressor so we don't yet know its maximum continuous rate. The compressor has a number of expensive mechanical issues that Questar is unable to fix. These include a throttling problem, a suction control issue and most recently a recycle control valve issue. Together with high line pressure in the main Questar pipeline (up to 700 p.s.i.), these problems create uneven flow to the sales line resulting in a wide variety of instantaneous flow rates and periodic shutdown of the compressor (no flow). When the compressor is at its peak function, the flow rate exceeds 400 mcf/day, sometimes topping out at around 480 mcf/day. When the compressor loses rpms and pressure, the flow rate goes down, sometimes to as low as 30 mcf/day. There is no indication, however, that flow from the well is tapering off. I was also able to take a pressure reading from the well when the compressor temporarily shut down and shut the well in on 11/23/2013, which showed 760 p.s.i., further evidence that the well is not playing out.

I should also note that Marion contracted with Paragon to install a meter directly on the Utah Fuel # 10, which they put in place on 11/5/2013. As expected, the spot readings from that meter have been consistent with the readings from the meter at the Questar compressor. We were hopeful that we could download the data from this meter to provide to the Division. Unfortunately, there is some type of compatibility issue between software and computer that has not been resolved with Paragon as of yet.

In addition to the in-field meter readings by me and Dave Smith, we also just obtained from Summit (today) the October production report. (Copy attached.) The report indicates that during October the Utah Fuel # 10 produced 4,050 mcf of gas, which does not include the gas burned to

3580 Orr Road,
Allen, Texas, 75002



power the compressor. As you know, the well was initially put on production on October 11th and was down for 4 days for compressor repairs. Taking that into account, the well produced at an average of about 283mcf/day during the 17 days it operated in October, which obviously would have been considerably more but for the compressor.

In short, based on the in-field meter readings, the pressure reading, and the production report, there is no indication that the flow rate from the Utah Fuel # 10 is tapering off or that the well will not continue to be a solid producer.

Finally, based on the problems with the Questar compressor, Marion's need to put additional wells on production, and continued high line pressure in the Questar pipeline (Questar recently informed us it could rise to over 800 p.s.i. in the near future), we ordered a rental compressor from J-W Operating in Colorado, which arrived at the site yesterday. This unit is a Cat/Ariel 3512, 945 hp machine capable of efficiently operating within conditions in the Questar system. We hope to have that compressor tied in to the gas gathering system and operational within about a week. When that compressor is operational we should be able to continuously flow the Utah Fuel # 10 at a much higher sustained rate without the cycling caused by the Questar compressor.

Utah Fuel # 8

We have been unable to put a rig on the Utah Fuel # 8 and don't expect to do so until sometime after the Board's December hearing. The rig was initially on the Oman 2-20 well as we prepared, frac'd and then cleaned out the well. We then repaired the rig and moved back onto the Oman 10-29 to prepare it for fracing, but then had to move back on the Oman 2-20 to repair a pump failure. The rig is now on the Oman 10-29 as of yesterday and we are preparing for the frac. Given the time needed to prepare the well for a frac job, frac and clean out the well, we don't expect to move onto the Utah Fuel # 8 until sometime around mid late December.

If you have any questions, feel free to give me a call.

Best

Doug Endsley, Operations Manager

3580 Orr Road,
Allen, Texas, 75002

CERTIFICATE OF DELIVERY

The Undersigned hereby certifies that a true and correct copy of the foregoing was delivered by electronic/first class mail to the following persons at the addresses indicated this 3rd day of December, 2013.

Mike Johnson
Counsel for the Board of Oil, Gas and Mining
mikejohnson@utah.gov

Steve Alder, Assistant Attorney General
Counsel for Utah Division of Oil, Gas and Mining
stevealder@utah.gov

A handwritten signature in dark ink, appearing to read "Steve Alder", is written over a horizontal line. The signature is fluid and cursive, with a long, sweeping underline that extends to the right.